C. P. U. No. 418

COMMITTEE ON PUBLIC UNDERTAKINGS (1980-81)

(SEVENTH LOK SABHA)

ELEVENTH REPORT

Action taken by Government on the Recommendations contained in the Fifty Second Report of the Committee on Public Undertakings (Sixth Lok Sabha)

on

AIR INDIA—WORKING RESULTS AND ALLIED MATTERS (MINISTRY OF TOURISM AND CIVIL AVIATION)

Presented to Lok Sabha on 1 APR 1981
Laid in Rajya Sabha on

LOK SABHA SECRETARIAT
NEW DELHI
February, 1981/Phalguna, 1902 (S)

LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA SECRETARIAT PUBLICATIONS

ANDHRA PRADESH

1 Andhra University General Co-operative Stores Ltd., Waltair (Visakhapatnam).

BIHAR

2. M/s. Crown Book Depot, Upper Bazar, Ranchi (Bihar).

GUJARAT

3. Vijay Stores, Station Road, Anand.

MADHYA PRADESH

4. Modern Book House, Shiv Volas Palace, Indore City.

MAHARASHTRA

5. M/s. Sunderdas Gianchand, 601, Girgaum Road, near Princess Street, Bombay-2.

6. The International Book House Pvt., 9, Ash Lane, Mahatma Gandhi Road, Bombay-1.

7. The International Book Service, Deccan Gymkhana, Poona-4.

8. The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.

9. M/s. Usha Book Depot, 585/A, Chira Bazar Khan House, Girgaum Road, Bombay-2.

10. M & J Services, Publishers, Representatives Accounts & Law Book Sellers, Bahri Road, Bombay-15.

11. Popular Book Depot, Dr. Bhadkamkar Road, Bombay-400001.

MYSORE

12. M/s. Peoples Book House, Opp. Jaganmohan Palace, Mysore-1.

UTTAR PRADESH

13. Law Book Company, Sardar Patel Marg, Allahabad-1.

14. Law Publishers, Sardar Patel Marg, P.B. No. 77, Allahabad—U.P.

WEST BENGAL

15. Granthaloka, 5/1, Ambica Mookherjee Road, Belgharia, 24-Parganas.

16. W. Newman & Company Ltd., 3, Old Court House Street, Calcutta.

17. Mrs. Manimala, Buys & Sells, 128, Bow Bazar Street, Calcutta-12.

DELHI

18. Jain Book Agency, Connaught Place, New Delhi.

19. M/s. Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.

CORRIGENDA TO THE 11TH REPORT OF COMMITTEE ON PUBLIC UNDERTAKINGS (7TH LOK SABHA) ON AIR INDIA - WORKING RESULTS AND ALLIED MATTERS

Page No.	Line No.	For	Read
3	34	19.25	19.24
11	21	Sl.No.7 and 8	Sl.No. 3
12	31	ot	to
13	4	2.28	3.28
14	32	40	140
15	15	candidates	candidate
15	20	After 'operating cost' insert 'exclusive of cost of fuel and oil'	
16	17	3.0.78 crores	0.73 crores
17	2	4.14	4.28 to 4.30
19	8-9	parties parties	, parties
19	5 from bottom	dough	doubts

CONTENTS

		Page
COMPOSITION OF THE COMMITTEE		(iii)
COMPOSITION OF THE SUB COMMITTEE ON ACTION TAKEN		(v)
INTRODUCTION		(vii)
I.	Report	1
II.	Recommendations that have been accepted by Government	6
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies.	18
VI	Recommendations in respect of which replies of Government have not been accepted by the Committee.	19
V.	Recommendations in respect of which final replies of Government are awaited.	23
	APPENDIX	
	Analysis of action taken by Government on the recommendations contained in the Fifty Second Report of the Committee on Public Undertakings (Sixth Lok Sabha)	24

COMMITTEE ON PUBLIC UNDERTAKINGS
(1980-81)

CHAIRMAN

Shri Bansi Lal

MEMBERS

2. Shri Gulam Nabi Azad
3. Shri Niren Ghosh
4. Shri Harikesh Bahadur
5. Shri Arif Mohammad Khan
6. Shri S. M. Krishna
7. Shrimati Geeta Mukherjee
8. Shri B. K. Nair
9. Shri Rameshwar Neekhra
10*. Shri Hiralal R. Parmar
11. Shri Darur Pullaiah
12. Shri Nagina Rai
13. Shri K. Ramamurthy
14. Shri Ravindra Varma
15. Shri Chandradeo Prasad Verma
16. Shri R. Ramakrishnan
17. Shri R. R. Morarka
18. Shri Shrikant Verma
19. Shri Ramanand Yadav
20. Shri Narisinh Bhagubava Mahida
21. Shri Swami Dinesh Chandra
22. Shri Sunder Singh Bhandari

SECRETARIAT

1. Shri H. G. Paranjpe—*Joint Secretary.*
2. Shri T. R. Krishnamachari—*Chief Financial Committee Officer.*
3. Shri S. P. Chanana—*Senior Finaicial Committee Officer.*

---

*Elected w.e.f. 28-11-1980 in the vacancy caused by appointment of Shri P.A. Sangma as Deputy Minister.

SUB-COMMITTEE ON ACTION TAKEN OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
(1980-81)

1. Shri Bansi Lal—*Chairman*
2. Shri R. R. Morarka—*Convener*
3. Shri Gulam Nabi Azad
4. Shri Swami Dinesh Chandra
5. Shri S. M. Krishna
6. Smt. Geeta Mukherjee
7. Shri B. K. Nair

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 11th Report on Action Taken by Government on the recommendations contained in the 52nd Report of the Committee on Public Undertakings (Sixth Lok Sabha) on Air India—Working Results and Allied Matters.

2. The 52nd Report of the Committee on Public Undertakings was presented to Lok Sabha on 30 April, 1979. Replies of Government to all the recommendations contained in the Report were received on 27 November, 1980. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 23 February 1981. The Report was finally adopted by the Committee on Public Undertakings on 26 February, 1981.

3. Analysis of the Action Taken by Government on the recommendations contained in the Fifty-Second Report of the Committee is given in the Appendix.

NEW DELHI;
February 28, 1981
Phalguna 9, 1902 (*S*).

BANSI LAL,
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

The Report of the Committee deals with the Action Taken by Government on the recommendations contained in the Fifty-Second Report (Sixth Lok Sabha) of the Committee on Public Undertakings on Air India—Working Results and Allied Matters which was presented to Lok Sabha on 30 April, 1979.

2. Action Taken notes have been received from Government in respect of all the 11 recommendations contained in the Report. The recommendations have been categorised as follows:—

(i) **Recommendations/observations that have been accepted by Government:**

Serial Nos. 1—3, 5, 7, 8, 10, 11.

(ii) **Recommendations/observations which the Committee do not desire to pursue in view of the Government's reply:**

Serial No. 9.

(iv) **Recommendations/observations in respect of which final of the Government have not been accepted by the Committee:**

Serial Nos. 4 and 6.

(iv) **Recommendations/observations in respect of which final replies are awaited:**

Nil.

The Committee will now deal with the Action Taken by Government on some of their recommendations.

A. *Net Foreign Exchange Earnings of Air India*

(Recommendation No. 1 (Paras 1.31 & 1.32)

The Committee had pointed out that though the net foreign exchange earnings of Air India had increased from Rs. 8.17 crores in 1975-76 to Rs. 30.31 crores in 1977-78, there would be virtually no net foreign exchange earnings during this period if the expenditure on fuel in India (ranging between Rs. 15.81 crores and Rs. 21.91 crores) is taken into account. The Committee had expressed the firm view that there was immense scope to augment foreign exchange earnings by cutting down foreign office expenses and foreign

travel expenses as well as rationalising the sales agency arrangements and restricting them to the minimum.

In their reply, Government have stated that keeping in view the fact that aviation fuel contained possibly 55 per cent of imported crude and going by the assumption that the cost of the finished product can be equally divided between crude on the one hand and refining, transport and miscellaneous costs on the other, the net foreign exchange earnings of Air India even after deducting the cost of imported crude would work out to Rs. 1.14 crores in 1975-76, Rs. 2.99 crores in 1976-77 and Rs. 24.26 crores in 1977-78. Government, however, feel that it is not necessary to debit to Air India any indirect foreign exchange expenditure in the form of imported crude as the Corporation is not given the benefit of indirect foreign exchange earnings/savings as per the Reserve Bank of India formula.

The Committee feel that the amount of net foreign exchange earned is an important criterion for evaluating the performance of an undertaking like Air India. Therefore, just as in the case of economic cost benefit analysis even indirect costs and benefits are taken into account, the indirect foreign exchange expenditure and earnings should be capable of being computed in the case of Air India to arrive at the net foreign exchange earnings. The Committee accordingly suggest that the matter should be referred to the Reserve Bank of India for an examination as to how best the computation in this regard could be refined in order to come to a proper appreciation of the working of the undertaking.

B. *Continuance of unprofitable routes*

(Recommendation No. 2 (Para No. 1.33)

The Committee had found that during 1977-78 the average yield per revenue tonne kilometer achieved by Air India was 46.9 U.S. Cents only whereas it was 57 in case of KLM, 69.3 in case of Swiss Air, 57.7 in case of Air France, 61.1 in case of Lufthansa, 59.0 in case of Alitalia and 55.0 in case of British Airways. This low yield was attributable to the fact that the operations of Air India were in a very large measure on low yield routes, where promotional fares had been established. The Committee failed to understand as to why Air India should continue to operate on routes on which it is losing year after year.

The Government have, in their reply, pointed out three important factors for low yields of Air India. These are (1) Air India is largely a long-haul international operator like PANAM, Japan Air

Lines and Singapur Air Lines, (2) Introduction of promotional fares on India/US route in 1971 and UK/India route in 1973 resulting in considerable increase in the ethnic traffic from these two countries, (3) Operation on low profitability routes like India/Japan and India/Australia.

The Government have pleaded that if services to Japan and Australia were to be discontinued, then apart from writing off a considerable amount of capital invested by Air India on these routes, it would deprive Air India of the presence in these markets for a long time to come. The Government have, therefore, expressed the view that an alternative course to discontinuance of the services on these routes would be to launch a major tourism drive between Japan/India and Australia/India backed by a co-ordinated effort between Air India, Department of Tourism and Hotel Industries including the I.T.D.C. Such a quick well co-ordinated thrust could it has been stated, be of inestimable value both to the tourist trade and Air India and could well make Air India's operations to these countries financially lucrative.

The Committee recognise and accept the need, as pointed out by the Government, of a coordinated effort between Air India, the Department of Tourism and Hotel Industries including India Tourism Development Corporation, to launch a major tourism drive in order to make the unprofitable routes pay. They accordingly desire that sustained efforts in this direction should be made forthwith and the position reviewed after a period of a year or two and if the review shows that some routes are still unprofitable, there should be no hesitation to cut them out.

C. *Travel Agencies*

Recommendation Nos. 4 & 6, (Paragraphs Nos. 2.35 to 2.37 and 2.39)

The Committee had observed that out of the 25 Indian Travel Agencies abroad which have now gone out of business all except one were operating in USA/Canada region. Heavy amounts were due from some of these parties, for example, William Becker Travel Agencies (Rs. 19.25 lakhs), ITA/Travel Stores (Rs. 13.26 lakhs), Travel and Voyages (Rs. 11.05 lakhs) and Bharat Travel Service (Rs. 8.21 lakhs). The Committee had required that a full scale enquiry should be conducted by the Central Vigilance Commission into the affairs of these agencies to ascertain in what circumstances these were closed down and whether any of the officials of Air India were in anyway responsible for the losses incurred by Air India as a result of their closure. The Committee had desired that initial

investigation in this regard may be entrusted to a senior officer capable of doing investigation work in the Embassy of the country concerned.

The Committee had further desired the Ministry of Civil Aviation to examine how best the interest of the national carrier could be secured from the unscrupulous Travel Agencies and the colluding officials of Air India having their links both in India and abroad.

The Government have, *inter alia,* in their reply to the aforesaid recommendations stated that the charge that tie ups with Travel Agents is a common practice amongst the staff of US region is somewhat sweeping and that it appears that there is only one case of an individual who works for Air India in New York who has a relative with whom Air India has had dealings. In view of this the Government have indicated that they do not consider it necessary to refer this case to Central Vigilance Commission for a full scale enquiry.

The Committee had called for an enquiry into the affairs of certain Indian travel agencies which were closed down with heavy dues to the Air India unpaid to see whether any of the officials of Air India were in any way responsible for the losses. Government have, however, stated that it appeared that there was only one case of an individual who worked for Air India in New York who had a relative with whom Air India had had dealings. The Committee would have appreciated if this statement was made after at least an initial investigation by a senior official of the embassy as suggested already. They are, therefore, constrained to reiterate that such a preliminary investigation should be instituted without any further delay and appropriate further action taken on the base of the results thereof.

D. *Air India's Fare Structure*

Recommendation No. 8 (Paragraph No. 3.29)

The Committee had pointed out that a person travelling to other countries had to generally pay much higher fare in rupee than what a person would pay in convertable currency for his travel from other countries to India. The Committee were unhappy to find that no specific review of the fare structure of Air India *vis-a-vis* other foreign Airlines operating in this country had been conducted so as to set right the imbalances that had come about in the fare structure and to safeguard the interest of those who are mostly Indians. The Committee saw no reason why the fare structure should not be distance related and uniform.

The Government have, in their reply, pointed out that any directional imbalance that exists is not Air India's own making. It has been pointed out that upheavels in the world currency market following the decision of IMF to untie the currencies which were related to the Gold standard, resulted in destroying fixed charges and allowed the currencies to float. In this peculiar situation only course of action open to carriers at that time was to freeze all fares and rates at the then existing levels in local currencies. As regards the Committee's fear that Air India's fare structure does not safeguard the interest of Indian passengers going abroad, Government have stated that from time to time Air India had responded by introducing concessional fares or Travel schemes which would benefit both Indians travelling abroad and Tourists coming into India particularly the ethnic population. With the relaxation in foreign travel for Indians in late 1977 Air India is stated to have successfully persuaded various carriers to establish promotional fares out of India.

The Committee note from the reply of the Government that no specific review of the fare structure of Air India vis-a-vis other foreign airlines operating in our country has been conducted. It is worthwhile to take up this review so that serious directional imbalances could be corrected. Normally a fare structure should be distance related and uniform for all routes and directions. It is obviously indefensible to have higher fare in rupees but lower fare in foreign currency for the reverse direction in respect of the same route, which would mean an indirect devaluation of the rupee. Air India's membership of the IATA should not inhibit fare restructuring on a rational basis.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (S. No. 1)

"The Committee find that Air India have not paid any income tax during the years 1975-76, 1976-77 and 1977-78, although they have been showing some profits during these years. Air India enjoyed exemptions from payment of customs duty on aircraft/aircraft spares and sales tax on fuel (in three States *viz.* Maharashtra, West Bengal and Tamilnadu) of the order of Rs. 8.31 crores and Rs. 6.95 crores respectively in 1977-78. The Committee thus find that but for the substantial reliefs in customs duty and sales tax enjoyed by Air India, the financial position of the Corporation would not at all be gratifying.

The net foreign exchange earnings of Air India are stated to have increased from Rs. 8.17 crores in 1975-76 to Rs. 8.49 crores in 1976-77 and to Rs. 30.31 crores in 1977-78. If the expenditure on fuel in India (ranging between Rs. 15.81 crores and Rs. 21.91 crores) which is substantially imported, is taken into account there would be virtually no net foreign exchange earnings during this period. The Committee are of the firm view that there is immense scope to augment foreign exchange earnings by cutting down foreign office expenses and foreign travel expenses as well as rationalising the sales agency arrangements and restricting them to the minimum."

(Paragraph 1.31)

"In this connection, the Committee wish to point out that the expenses abroad were as high as Rs. 182.29 crores in 1977-78 as against the total operating expenses of Rs. 270.85 crores."

(Paragraph 1.32)

Reply of Government

As the exemption from Customs Duty and Sales Tax on fuel is in accordance with international practice and as withdrawal of these facilities will place Air India in a disadvantageous position vis-a-vis its competitors who are already enjoying these facilitiese in their countries, it is not felt desirable to discontinue this practice.

The Committee have observed that Air India will have virtually no Foreign Exchange earnings if the foreign exchange element in fuel uplifted by the Corporation in India is taken into account. Air India had stated in their evidence before the Committee that aviation fuel contained possibly 55 per cent of imported crude. On the assumption that the cost of the finished product can be equally divided between crude on the one hand, and refining, transport and miscellaneous costs on the other, Air India's expenditure on just crude oil would be as follows:

Rs. crores

1975-76	8
1976-77	10
1977-78	11

If 55 per cent of the crude is imported, then the foreign exchange outgo allocable to Air India for these three years would be as follows:

Rs. crores

1975-76	4·4
1976-77	5·5
1977-78	6·05

Working on the above figures, the net foreign exchange earned by Air India for these 3 years would be as under:

	Total Foreign Exchange earned	Less cost of imported crude	Net Foreign Exchange earned
1975-76	5·54 crores	4·4 crores	1·14 crores
1976-77	8·49 ,,	5·5 ,,	2·99 ,,
1977-78	30·31 ,,	6·05 ,,	24·26 ,,

It is, however, felt that it is not necessary to debit to them any indirect Foreign Exchange expenditure in the form of imported crude as the Corporation is not given the benefit of indirect Foreign Exchange earning|savings as per the Reserve Bank of India formula on the following:

(i) Issue of tickets in Indian Rupees to destinations where Air India does not operate but for which Air India has to pay foreign airlines in Foreign Exchange;

(ii) Payment of Rupees by exporters for cargo to countries where Air India does not operate but for which Air India has to pay the foreign carriers in Foreign Exchange;

(iii) Charges "collect-shipments" from abroad;

(iv) Sub-charters for cargo exports; and

(v) Billing of Indian Airlines which is reflected as Foreign Exchange earnings for Indian Airlines and outgo for Air India.

[*Ministry of Tourism and Civil Aviation* (*No. H.* 11013/8/80—*Ac. dt.* 27-11-1980)]

Recommendation (S. No. 2)

"The Committee find that the average yield per revenue tonne kilometre achieved by Air India was very low compared to a number of foreign airlines. During 1977-78 the average yield for Air India was 46.9 only in terms of U.S. cents whereas it was 57 in case of KLM, 69.3 in case of Swiss air, 57.7 in case of Air France, 61.1 in case of Lufthansa, 59.0 in case of Alitalia and 55.0 in case of British Airways. This is attributable to the fact that the operations of Air India are in a very large measure on low yield routes where promotional fares have been established. The Committee fail to understand as to why Air India should continue to operate on routes on which it is losing year after year."

(Paragraph 1.33).

"The Committee consider that for the efficient functioning of Air India, it is necessary to have a separate wholetime Chairman stationed at Bombay. He should preferably have a good background of air transport management and its economy."

(Paragraph 1.34).

Reply of Government

While considering the question of low yields three important factors have to be kept in mind:

(A) Air India is largely a long-haul international operator rather like PANAM, JAPAN Airlines and SINGAPORE Airlines and unlike Swiss Air, AIR FRANCE and LUFTHANSA.

In case of European airlines, substantial revenue is earned from their operations in the European sector. None of the tours in Asia are as lucrative as the ones available in the European Market. It may be mentioned that the traffic potential available to the European airlines is much higher than anything that Air India can

get. Added to this are the high fares prevailing in Europe. Consequently, the cumulative benefit of both these factors is obtained in a far greater measure by the western airlines than by Air India. The Committee have already noted this position in para 1.29 of the Report. The only comparable situation for Air India exists in its advantage over traffic between India and the Gulf even where Air India suffers by comparision in so far as the fare structure is concerned. Nevertheless, it is interesting to note that where Air India's revenue per RTKM in the other regions ranges from Rs. 3|- to Rs. 5|-, in the Gulf region it is approximately Rs. 8|-.

Taking these points into consideration, it would be correct to compare Air India yields, as has already been done by the Committee in para 1.28, with those of PANAM, JAL and SAL who are mainly longhaul operators. As stated in para 1.28 of this Report, Air India compares favourably with these 3 airlines and is in fact the best of the four.

(B) The low average yield can be attributed partly to the introduction of promotional fares on India|USA route in 1971 and UK|India route in 1973. However, with the introduction of these fares, the ethnic traffic from these two countries has considerably increased thereby greatly improving the over-all load factor on these routes. This has also helped in providing service of considerable value to Indian nationals/origin population. In this connection, the following table may be seen.

Year	INDIA/USA/INDIA		INDIA/USA/UK	
	Before introduction of excursion fares	After introduction of excursion fares	Before introduction of excursion fares	After introduction of excursion fares
1965	4002	..	25147	
1966	3980		23971	
%increase	-0·5		-4·7	
1967	4840		30394	
%increase	+21·6		+26·8	
1968	5646		37238	..
%increase	+16.7		+22·6	..
1969	6242		38606	
%increase	+10·6		+3·7	
1970	8836	..	37490	..
%increase	+41·5	..	-2·9	..

Year	INDIA/USA/INDIA		INDIA/UK/USA	
	Before introduction of excursion fares	After introduction of excursion fares	Before introduction of excursion fares	After introduction of excursion fares
1971		15659	36786	..
%increase		+77·2	-1·9	..
1972		56461	26417	..
%increase		+260·6	-28·2	..
1973		54834		70856
%increase		-2·9		+163·3
1974	..	38344		75064
%increase	..	-30·0		+5·9
1975		65127	..	82638
%increase		+69·8	..	+10·1
1976	..	84041		92837
%increase	..	+29·0		+12·3
1977	..	89389	..	99131
%increase	..	+6·4	..	+6·8

(C) The third reason for low yields is the operation on routes where the profitability is low and they are:

1. India|Japan
2. India|Australia

One of the reasons advanced by Air India for losses incurred on India|Japan route is that unlike some of the international airlines who operate wide bodied aircraft to Japan, Air India had been operating only B 707 until 1st January, 1980 when it introduced its first 747 flight to Japan. It is too early to assess the profitability of the route following the introductions of 747. One of the reasons why the 747 flight has been introduced is the projected expansion of this route to U.S. and Canada.

The India|Japan route as well as the India|Australia route though not very profitable by themselves do contribute to the profitability of the Western routes of Air India through passengers who transit to the West from these areas through India. The revenue on this account is not reflected in the profitability of these routes.

In fairness to Air India it may be said that they have invested an enormous amount of money in opening up the routes to Japan and

Australia. They have a presence in these two countries which is widely known. Their inability to exploit this presence may have been because of reasons other than lack of effort. It is true that if these strives were to be discontinued then apart from writing off a considerable amount of capital invested by Air India on these routes, it would deprive Air India of a presence in these markets for a long time to come. Undoubtedly, any effort to re-enter these routes would be enormously expensive.

The alternative to discontinuing these services would be, therefore, to launch a major tourism drive between Japan|India and Australia|India. This could be done by a coordinated effort between Air India, the Department of Tourism and Hotel Industry including the India Tourism Development Corporation. A quick, well coordinated thrust could be of inestimatable value, both to the tourist trade and to Air India and could well make Air India's operation to these countries financially lucrative.

A separate whole time Chairman-cum-Managing Director for Air India has since been appointed and he is stationed at Bombay.

[*Ministry of Tourism and Civil Aviation* (No. *H.* 11013/8/80—*Ac* dt. 27-11-1980)]

Recommendation (S. Nos. 7 and 8)

"The total outstandings due to Air India stood at a fantastic figure of Rs. 4557 lakhs as on 31st March, 1978 of which an amount of Rs. 3,817 lakhs was less than one year old, Rs. 482 lakhs more than one year but less than three years old and Rs. 258 lakhs more than three years old. The amount considered doubtful was of the order of Rs. 273.70 lakhs while the amount under dispute from parties owing more than Rs. 10,000|- each was Rs. 115.83 lakhs as on that date. Amounts totalling Rs.64.45 lakhs were written off as bad debts during the years 1974-75 to 1977-78 of which as much as Rs. 39.66 lakhs was written off in 1976-77 and Rs. 13.97 lakhs in 1977-78." (Paragraph 2.33)

"The Committee are deeply concerned to note that of the total outstanding dues amounting to Rs. 4,557.36 lakhs the outstandings in USA and Canada Region also amounted to Rs. 429.69 lakhs as on 31st March, 1978 of which an amount of Rs. 115.83 lakhs was disputed. From the figures of break-up of this amount furnished to the Committee, it is seen that traffic dues to the tune of Rs. 190.42 lakhs were outstanding against agents on invoicing reporting basis, Rs. 197.41 lakhs were outstanding from Commercial houses|private parties and Rs. 26.82 lakhs as 'charges collect shipments' in USA

Canada Region. Of the total outstanding dues under dispute of the order of Rs. 115.83 lakhs in USA|Canada region, the agents in default accounted for as much as Rs. 93.42 lakhs."

(Paragraph 2.34)

Reply of Government

These observations of the Committee are factual. The comments thereon have been given in reply to paragraphs 2.35 to 2.37 at S. No. 4 and 6.

[*Ministry of Tourism and Civil Aviation* (No. H. 11013/8/80—*Ac* dt. 27-11-1980)]

RECOMMENDATION (S.No.5)

"The Committee would also like to be apprised immediately of the efforts made by Air India to recover the amount of Rs. 197.41 lakhs due from commercial houses|private parties in USA|Canada region and the results thereof".

(Paragraph 2.38)

Reply of Government

Out of Rs. 197.41 lakhs then outstanding, an amount of Rs. 116 lakhs has already been recovered and the balance which includes some doubtful debts is being followed up for recovery, and wherever necessary, legal action has been initiated.

[*Ministry of Tourism and Civil Aviation* (No. H. 11013/8/80—*Ac* dt. 27-11-1980)]

Recommendation (S.No. 7 and 8)

"The Committee are distressed that there is tremendous directional imbalance in the fare structure. A person travelling to other countries has to generally pay much higher fare in rupee than what a person will pay in convertible currency, for his travel from other countries to India however shaky that currency may be. The Committee are led to believe that a passenger from a poor country like India is indirectly being made ot subsidise a passenger originating from an affluent country."

(Paragraph 3.27)

"There is massive under-cutting of fares and it has become an open secret to all intending travellers that many airlines carry passengers at a fraction of the fare Air India charges its passengers from India. The Committee are unable to find any justification for maintaining a provision in the Statute Book to penalise these. They

would strongly recommend that Government should do away with it immediately. The fare structure should be thrown open to be decided by market forces."

(Paragraph 2.28)

"The Committee are unhappy to find that Government have not taken interest in setting right the imbalances that have come about in Air India's fare structure to safeguard the interests of passengers who are mostly Indians. In fact no specific review of the fare structure of Air India vis-a-vis other foreign airlines operating in this country has been conducted. The Committee see no reason why the fare structure should not be distance related and uniform."

(Paragraph 3.29)

Reply of Government

While considering the question of directional imbalance in the fare structure, the effect on fares caused by the upheavals in the World currency market following the decision of the IMF to unite the currencies which were related to the gold standard should be taken in account. This decision resulted in destroying fixed charges and allowed the currencies to float. Consequently, commercial activities all over the world including airlines' fares and revenue were affected. If the carriers had allowed the effect of such floating of currencies to influence their fares and rates, the result would have been a disaster since all the fares from the countries whose currencies had considerably appreciated would have been massively reduced. Correspondingly, countries whose currencies had depreciated would have had to ask for enormous increases in fares. In this peculiar situation, action had to be taken to prevent drain in revenues without exposing the consumer to massive increase in the fares, particularly in certain countries. The only course of action open to carriers at the time was to freeze all fares and rates at the then existing level in local currencies. It will be clear, therefore, that any directional imbalance that exists is not of Air India's own making.

As regards the Committee's comments that Air India's fare structure does not safeguard the interest of Indian passengers going abroad, the Committee's fears are somewhat unfounded. From time to time Air India had responded by introducing concessional fares or travel schemes which would benefit both Indians travelling abroad and tourists coming into India, particularly the ethnic population. Of course, in introducing such schemes, care had to be taken to ensure

---

Paragraph 3.28: At the time of factual verification the Ministry pointed out that Government have not accepted this part. As can be seen from Chapter I this part has not been pursued by the Committee.

that the revenues of Air India were not adversely affected. Some of the steps taken by Air India in this regard are:

(a) To promote tourism, Air India have since 1958 endeavoured to establish promotional fares of various types which would cater to different segments of the tourist market, from countries abroad;

(b) A sizeable ethnic population had settled in the UK and the USA during the post-independence period. This population started making trips in considerable numbers to India to visit friends and relatives. In the initial stages, the 6th freedom operators monopolised this traffic by offering unauthorised discounts which Air India could not do. However, Air India met this challenge quickly by establishing similar fares from India to these countries.

Prior to November, 1977, travel by an Indian abroad was circumscribed by severe restrictions. It would have been futile to offer promotional fares out of India at that time. With the relaxation in foreign travel for Indians in later 1977, Air India successfully persuaded various carriers to estalish promotional fares out of India.

[*Ministry of Tourism and Civil Aviation* (*No. H.* 11013/8/80—*AC dt.* 27-11-1980)]

Recommendations (S. No. 16)

"The break-even load factor in respect of B. 747 aircraft was estimated to be 32.2 at the time decision was taken to purchase these aircraft (July 1967). The actual break-even load factor of these aircraft was, however, as high as 39.2 in 1977-78."

(Paragraph 4.29)

"In 1971-72 which was the first year of introduction of B-747 aircraft, it was observed that the indirect operating cost amounted to 40 per cent of the direct operating cost as compared to 75 per cent assumed in the feasibility study. This increase is stated to be 'the result of combined effect of escalation in costs during the intervening years as well as some under-estimation in the indirect operating costs'. It has been further mentioned that another factor why the break-even load factor has shown adverse position is that 747 operations are largely on low yield routes. However, the fact remains that the basis for justifying the purchase of the aircraft has been materially altered."

(Paragraph 4.29)

"The Committee find it hard to believe that this wide variation in the estimated and actual break-even factor caused by under-estimation of expenditure and over-estimation of revenue in respect of B. 747 aircraft has not come to the notice of Government and the matter is only now being looked into. If true, it would amount to a callous disregard of the country's interests in such vital a field as purchase of passenger aircrafts from foreign firms which would always be waiting in the wings to take the Airlines and the Government for a ride. This gives rise to serious suspicion about the bonafides of the purchase."

(Paragraph 4.30).

Reply of Government

In 1966, B-747 aircraft was the earliest wide bodied aircraft that was under development at that stage and there was no other candidates wide-bodied aircraft under production. The break-even load factor could, therefore, be determined only on such data as were available or known at that time. Assumptions had to be made about several other elements such as ground facilities, man-power requirements etc. Consequently, an assumption was made that the overall indirect operating costs could be about 75 per cent of the direct operating cost. The yield assumptions were based on normal fares that were prevalent in 1966.

Five years later, in 1971-72, when B-747 was actually introduced for the first time by Air India on the India/UK/USA route, it was observed that the indirect operating cost amounted to 140 per cent of the direct operating cost. To that extent the Committee is correct in saying that there was under estimation of expenditure at the time of the evaluation of this aircraft. It is possible that some of this under-estimation was because of escalations in costs during the period 1966—1971.

As regards the over-estimation of revenue it must be said in fairness to Air India that the revenue had been correctly estimated on the then (1966) prevailing fares and yields on the Bombay/London route. It was impossible at that time to foresee the drop in yields five years later due to the introduction of promotional fares.

It may be mentioned that all the estimates on expenditure and revenue were reported to the Government through the budget documents of the Corporation. There was no stipulation of reporting

those estimates specifically and separately to Government. As regards introduction of excursion fares which resulted in some drop in yields but were beneficial in the long run, this had been done specifically with the support and approval of Government.

In the circumstances *prima facie* there is no reason to suspect the bonafides of the purchase of B-747 aircraft.

[*Ministry of Tourism and Civil Aviation* (*No. H.* 11013/8/80—*AC dt.* 27-11-1980)]

Recommendations (S. No. 11)

"The Committee note with concern that the systemwise yield on the routes on which B. 747 aircraft are operating was Rs. 3.298 per RTKM in 1977-78 as against Rs. 4.469 per RTKM on routes on which B. 707 aircraft are operating. For instance, on the India-Australia route where B. 747 has been employed the break even load factor was 52.6 in 1976-77, 54.7 in 1977-78 and 59.4 in 1978-79. Air India sustained losses on this route to the tune of Rs. 2.53 crores in 1976-77, Rs. 2.50 crores in 1977-78 and Rs. 0.73 crores in 1978-79."

(Paragraph 4.31)

"The Committee note that the desirability of smaller wide bodied aircraft as replacement aircraft for the ageing B. 707 fleet is engaging Government's attention. The Committee require that further deals with the Boeing Company should be stopped immediately till a study is made in depth honestly and dispassionately of the economics of various proposals already pending with Government".

(Paragraph 4.32)

"The Committee find that with the same methodology as was followed in the earlier study, the current level of indirect operating cost would be 99 per cent of the direct operating costs (as against 75 per cent then estimated). These are expected to come down gradually with the increase in the fleet size and increased operations. The Committee urge that speedy and effective steps should be taken forthwith to bring down the incidence of indirect costs through stricter supervision and control over expenditure."

(Paragraph 4.33)

Reply of Government

As regards the variation in system-wise yields achieved on B-747 at Rs. 3.298 per RTKM in 1977-78 and Rs. 4.469 per RTKM on

707, this was due to the introduction of several excursion fares on the 747 routes due to competitive reasons as explained in para 4.14.

A joint fleet study for determining the choice of aircraft for meeting the future requirements of replacement and expansion of Air India and Indian Airlines has already been initiated. In this study, the models of smaller wide-bodied aircraft of various manufacturers including that of Boeing Company are being evaluated alongwith B-747s.

[*Ministry of Tourism and Civil Aviation* (*No. H.* 11013/8/80—*AC dt.* 27-11-1980)]

CHAPTER III

RECOMMENDATIONS|OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Recommendation (S. No. 9)

"The Membership of IATA of an international carrier seems to have inhibited the rationalisation of fare structure. The Committee are not covinced about the specific and real benefits that Air India (As well as IAC) are deriving from IATA. Our air carriers are old enough and no doubt have developed expertise to stand on their own if there is no lack of will. The Committee therefore feel that no useful purpose would be served for the two airlines to continue as members of IATA. In this connection it is worth noting that the American Civil Aviation Board have reportedly decided to come out of IATA."

(Paragraph 3.30).

Reply of Government

The activities of IATA are not limited only to establishing fares and rates through the Traffic Conference machinery. Unfortunately, only this activity of IATA corners the lime light because it affects the consumer immediately. The other activities in the technical, financial and procedural fields, even though equally important, generally remain in the background. Even in respect of fares, in the present context of multi-lateralism, no carrier can stand singly on the issue of fares or rates. In fact, for negotiating fares, IATA members and even East European countries meet together and evolve their fares structure by multi-lateral consent. The platform of IATA becomes particularly useful in the event of an international crisis as happened when fares had to be increased to meet the rising costs resulting from the fuel price escalations. The response of all members on that occasion was spontaneous. Such an action may not have been possible in the absence of the IATA Traffic Conference Machinery. In these circumstances, resigning from the membership of IATA may not be advisable.

[*Ministry of Tourism and Civil Aviation* (*No. H.* 11013/8/80—*AC dt.* 27-11-1980)]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendations (S. Nos. 4 and 6)

"The Committee further observe that out of the 25 Indian Travel Agencies abroad which have now gone out of business, all except one were operating in USA/Canada Region. Some of these parties parties from whom heavy amounts have due in the USA/Canada Region and which have since closed down are—william Becker Travel Agency (Rs. 19.24 lakhs). ITA/Travel Stores (Rs. 13,26 lakhs) Travel and Voyages (Rs. 11.05 lakhs) and Bharat Travel Service (Rs. 8.21 lakhs)."

(Paragraph 2.35)

"The Committee note that no caution/earnest money is demanded from the travel agencies before entrusting business. The deposition of the Regional Director, U.S.A. and Canada that 'in the market conditions existing in the United States there is no way, in my opinion, to prevent an agent from taking an airline for a ride as we have been taken on occasion, may appear to be on the surface a pathetic admission of their helplessness in the matter but there seems to be more than meets the eye. The Committee suspect that the conduct of some of Air India's officials vis-a-vis these agencies has not been above aboard."

(Paragraph 2.36)

"The evidence tendered by Air India's representatives in USA/Canada region and their superiors in Headquarters has not allayed these suspensions. It has revealed tie-ups of one agency with another links of certain officers with some of these agencies through their relations or friends, and commissions having been paid to certain agents in circumstances that have cast serious dougts in their mind. The Committee, therefore, require that a full scale enquiry should be conducted by the Central Vigilance Commission into the affairs of Willian Becker Travel Agency, Bharat Travel Service, V.I.P. Holidays, ITA Travel Store, Travel and Voyages and Common-

wealth Economy Tours to ascertain in what circumstances these were closed down and whether any of the officials of Air India were in any way responsible for the losses incurred by Air India as a result of their closure. The initial investigations in this regard may be entrusted to a senior official capable of doing investigation work in the embassy of the country concerned. The Committee would like to be appraised of the results of this enquiry at the soonest."

(Paragraph 2.37)

"The Committee would further like the Ministry of Tourism and Civil Aviation to examine how best the interests of the national carrier could be secured from unscrupulous travel agencies and the colliding officials of Air India having their links both in India and abroad."

(Paragraph 2.39)

Reply of Government

The observations made in para 2.35 are factually correct.

It is not Airlines' practice, particularly in USA, to demand caution/earnest money from the travel agencies before business is transacted between airlines and travel agencies in the USA. In the USA, most travel agents are approved by both IATA and the Air Traffic Conference (the association of US Domestic Carriers). All these agents are members of the Bank settlement Plan, and are given credit in the form of blank tickets by the Air Traffic Conference on behalf of all carriers including Air India. The tickets used for this purpose are standard tickets which do not bear any individuals carriers imprint. Carriers supply the agent with metal plates bearing the carrier's identifying number and name. These standard tickets are then validated with the carrier's plate, and a similar plate identifying the issuing agent. The agent makes payment to a designated area bank for all tickets sold, and the area bank debits the amounts paid to the carriers according to the value of the tickets validated with the carrier's plates.

A small number of agents do not seek ATC appointment but operate with IATA approval only. Air India, for instance, does business with approximately 8,000 agents who are appointed by ATC and 24 agents who are not members of ATC and, therefore, hold Air India ticket stock. Air India, in accordance with industry practice, supplies such ticket stock after a bank reference is obtained and a credit check executed by a commercial agency. This is done in case of all agents receiving Air India tickets. In addition, when

the IATA Secretariat approves an applicant, it examines the credit worthiness of the applicant on the basis of certified bank statements and references. In each case where an agent asks for individual carrier's tickets stock immediately after IATA approval, a positive credit report has always been obtained.

Agents holding Air India ticket stock also hold ticket stock from a number of other IATA carriers. Air India conducts periodic audit of agents' ticket stock to ensure that the tickets are issued in sequence, and generally in accordance with the IATA and Air India rules. As Air India operates in a competitive climate, and other carriers are very liberal in offering credit facilities to travel agents, they must, for competitive reasons, offer similar terms to their agents if they want to obtain their share of the market. If Air India were to insist on a Bank Guarantee which would add to the agent's cost of doing business and effect his competitive standing in the market place, it would put Air India at a disadvantage *vis-a-vis* the other carriers. Therefore, it is not in the commercial interest of Air India to insist on a bank guarantee before giving credit to agents.

The Committee have been concerned to note in para 2.34 that the outstandings in USA and Canada amounted to Rs. 4.30 crores as on 31st March, 1978. These figures comprise the following:

	Rs. crores
Agents on invocing/Reporting basis	1·90
Commercial House/Private Parties	1·98
Charges collect shipments	0·27
Government and Public Sector Undertaking	0·12
Airlines	0·03
	4·30

Out of this, the disputed outstandings are Rs. 1.07 crores and not Rs. 1.15 crores as stated in the Report. If the disputed amount is taken away from the total outstandings, the recoverable dues from the USA and Canada come to Rs. 3.23 crores against which Rs. 2.63 crores have already been recovered and the rest of the amount is under recovery.

The charge that tie-ups with travel agents is a common practice amongst the staff of US Region is somewhat sweeping. It appears that there is only one case of an individual who works for Air India

in New York, who has a relative with whom Air India has had dealings. In view of what has been stated above, it has not been considered necessary to refer the case to Central Vigilance Commission for a full-scale enquiry.

[*Ministry of Tourism and Civil Aviation* (No. H. 11013/8/80—Ac dt. 27-11-1980)]

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

—NIL—

NEW DELHI;
February 28, 1981

Phalguna 9, 1902 (*S*).

BANSI LAL,
Chairman,
Committee on Public Undertakings.

APPENDIX

Vide Para 3 of Introduction

Analysis of Action taken by Govern ment on the recommendation contained in the Fifty Second Report of the Committee on Public Undertakings (Sixth Lok Sabha)

I.	Total number of recommendations made.	11
II.	Recommendations that have been accepted by Government (*vide* recommendations at S.Nos. 1-3,5,7,8,10,11)	8
	Percentage to total	73%
III.	Recommendation which the Committee do not desire to pursue in view of Governments reply (*vide* recommendation at S.No. 9	1
	Percentage to total	9%
IV.	Recommendations in respect of which replies of Govenrment have not been accepted by the Committee (*vide* recommendations at S.No. 4 and 6). .	2
	Percentage to total	18%
V.	Recommendations in respect of which replies of Government are still awaited	Nil
	Percentage to total . . .	Nil